

**DEFENSE SYSTEMS MANAGEMENT COLLEGE
FUNDS MANAGEMENT DEPARTMENT**

MAR 01

TEACHING NOTE

**OVERSIGHT REPORTS
FOR MAJOR ACQUISITION PROGRAMS
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GENERAL

Congress and DoD both require timely, consistent, and reliable information regarding the status of Major Defense Acquisition Programs (MDAPs) and Major Automated Information System (MAIS) programs in terms of cost, schedule, and technical performance. The three primary reports designed to provide this information are the *Selected Acquisition Report (SAR)*, the *Defense Acquisition Executive Summary (DAES)* (released within DoD only), and the *Unit Cost Report (UCR)*. Typically, once a program has been designated a SAR program, it is also required to comply with the DAES and UCR requirements.

As defined in DoDI 5000.2, MDAPs are acquisition programs that are not highly sensitive classified programs (determined by the Secretary of Defense (SECDEF)) and are:

- designated by the Under Secretary of Defense (Acquisition, Technology & Logistics) (USD (AT&L)) as an MDAP, or
- estimated by the USD (AT&L) to require an eventual total expenditure of \$365M RDT&E or \$2.190B procurement funds in FY 2000 constant dollars (10 U.S.C., 2430 & DoD 5000.2-I, Para E2.8).

DoDI 5000.2 defines a MAIS as an AIS that is not a highly sensitive classified program (as determined by SECDEF) or a tactical communication system and is:

- designated by the Assistant Secretary of Defense for Command, Control, Communications and Intelligence (ASD(C3I)) as a MAIS, or
- estimated by the ASD(C3I) to require program costs in any single year of \$32M or total life-cycle costs in excess of \$378M (both in FY 2000 constant dollars).

Note that it is possible for a MAIS program to also be classified as a MDAP. In such a case, the program must meet all of the reporting requirements for a MDAP.

An automated system has been developed to standardize and simplify the preparation of the various reports required by Congress and OSD. The *Consolidated Acquisition Reporting System (CARS)* is a personal computer-based data entry and reporting software package that maintains and reports information on defense programs. Program Management Offices (PMOs)

responsible for MDAPs and MAISs are required to use CARS to prepare these reports; non-MDAP/MAIS programs may use CARS. The CARS system has three modules to generate the Acquisition Program Baseline (APB), the SAR, and the DAES. The Unit Cost Report is included in the DAES module. These modules are integrated to transfer APB data to the SAR and DAES identified by the shaded format. Changes that cause an APB breach are automatically calculated in the SAR and DAES / UCR modules. The PMOs can add their comments to the reports using templates provided.

As noted in DoD 5000.2-R¹, Appendix A, the CARS software is the responsibility of the Director, Acquisition Resources & Analysis (D, AR&A) within the Office of USD (AT&L). All questions, including requests for copies of the software, should be directed to that organization.

SELECTED ACQUISITION REPORT

SARs shall be prepared using the CARS and submitted to Congress for all ACAT I programs in accordance with 10 U.S.C., 2432. The SAR provides the status of total program cost, schedule, and performance with program unit cost and unit cost breach information. In the case of joint programs, the SAR shall include such information for all joint participants. Each SAR shall include a full life-cycle cost analysis for the reporting program and its antecedent program. This information is provided in a concise, summary form emphasizing new information and changes since the last report.

Annual SARs are mandatory for all programs that meet the reporting criteria. The SAR for the quarter ending 31 December is the annual SAR; this report is due 60 days after the date on which the President's Budget is submitted to Congress for the next fiscal year. Information contained in that SAR (dollars by base year) must be consistent with the President's Budget submission to Congress.

Quarterly SARs are submitted only on an "exception" basis as described below. If required, they cover the quarters ending 31 March, 30 June, and 30 September and must be submitted within 45 days after the quarter end date. A quarterly SAR is required if the program experienced a:

- 15% or more increase in the current estimate of the Program Acquisition Unit Cost (PAUC) compared to the PAUC in the currently approved APB, or
- 15% or more increase in the current estimate of the Average Procurement Unit Cost (APUC) compared to the APUC in the currently approved APB, or
- six-month or greater delay in the current estimate of any schedule milestone since the current estimated reported in the previous SAR, or
- Milestone B, Milestone C, or Full Rate Production Decision Review (Milestones II or III for grandfathered programs)² and associated APB approval within 90 days prior to the quarter end date.

¹ All references to DoD 5000.2-R in this teaching note refer to the January 1, 2001 version of Interim Regulation DoD 5000.2-R.

The following costs should be expressed in constant program base year dollars (no inflation):

- ***Program Acquisition Unit Cost*** - The unit cost found by dividing the total estimated cost for research, development, test and evaluation, procurement and system specific military construction by the total number of fully configured end items.
- ***Average Procurement Unit Cost*** - The unit cost found by dividing the total procurement cost by the total procurement quantity.

The 15% growth in PAUC or APUC that triggers an exception report is commonly known as a “Nunn-McCurdy” cost breach.

31 U.S.C., 1105 allows the SECDEF to waive the requirement for submission of a SAR for a program for a given fiscal year provided certain criteria are satisfied. SECDEF has delegated this authority to the USD (AT&L). The written notification waiver must be submitted to the Senate Armed Services Committee and the House Armed Services Committee not later than 60 days before the President’s Budget is submitted to Congress. Criteria required to waive a SAR are:

- The program has not entered System Development and Demonstration (EMD for grandfathered programs);
- A reasonable cost estimate has not been established for the program; and
- The system configuration for the program is not well defined.

As described in DoD 5000.2-R, the USD (AT&L) may consider terminating a program's SAR submissions when 90% of expected production deliveries or 90% of planned acquisition expenditures have been made or when the program is no longer considered an ACAT I program (as specified in 10 U.S.C., 2430).

DEFENSE ACQUISITION EXECUTIVE SUMMARY

The purpose of the DAES report is to highlight both potential and actual program problems to the USD (AT&L) or ASD (C3I) before they become significant. At a minimum, the DAES reports program assessments, unit costs, current estimates of the APB parameters, status reporting of exit criteria, and vulnerability assessments. The report provides standard, complete

² This note refers to the defense acquisition process defined in the latest versions of DoD Directive 5000.1, DoD Instruction 5000.2-I, and interim guidance version of DoD 5000.2-R. “Grandfathered” programs are those programs that continue to operate under the process described in the 1996 versions of DoDD 5000.1 and DoD 5000.2-R.

summary reporting of ACAT I programs between milestone decision points and is used primarily for program oversight by senior DoD executives. Information contained in the DAES report shall be consistent with that in the current Acquisition Decision Memorandum (ADM) and APB, as well with other mandatory or approved program documentation.

Per DoD 5000.2-R, the USD (AT&L) designates which ACAT I programs must prepare DAES reports and assigns each designated program to one of three reporting groups. The ASD(C3I) performs the same function for ACAT IA programs. The PM shall prepare the report using the CARS software and is required to submit the report (in the form of one hard copy and one computer disk) to the USD (AT&L) by the last working day of the program's designated quarterly reporting month. Group A reports are due at the end of the first month of a calendar quarter; Groups B and C must submit their reports by the end of the second and third months of a calendar quarter, respectively. Designated ACAT IA programs are required to submit an electronic copy of their DAES to ASD(C3I) within 30 days following the end of the quarter.

The DAES addresses total costs and total quantities for all fiscal years projected through the end of the acquisition phase. If not identified in the Future Years Defense Program (FYDP), best estimates for costs beyond the FYDP should be provided as total program reporting. The total program concept refers to the entire weapon system acquisition process from concept exploration through production. In the case of programs that are subsystems to platforms and whose procurement is reported in the platform budget line, approved acquisition program funding for such subsystem program is reported. There are two reasons an '**out-of-cycle**' exception DAES report is required:

- The PM shall submit a DAES report when there is reasonable cause to believe that a Nunn-McCurdy unit cost breach occurred or will occur (as required by 10 U.S.C., 2433). This requirement may be satisfied by submitting a partial DAES consisting of DAES Sections 5; 6.2; and 7 (specifically block #28).
- If the program deviates from the approved APB thresholds as a result of submission of the Component's Program Objectives Memorandum (POM) or the Budget Estimate Submission (BES), the PM shall submit a DAES Section 5, 6.2, and 8.

UNIT COST REPORT

The Unit Cost Report (UCR) was established to satisfy congressional requirements for standardized information to control the unit cost growth of MDAPs. It includes Program Acquisition Unit Cost and Average Procurement Unit Cost (in base year dollars), with major contract information. With the exception of pre-Milestone B programs (pre-Milestone II for grandfathered programs) reporting RDT&E costs only, UCRs are required for all ACAT I programs for which SARs are submitted.

Unit cost reporting begins with the submission of the initial SAR and terminates with the submission of the final SAR. On a quarterly basis, the PM submits to the Component Acquisition

Executive (CAE) a written report on the unit costs of the program. The written report shall be included in the DAES submission. The CAE must receive the UCR by the last working day of the quarter in accordance with the DAES submission procedures. The UCR includes the following information:

- The current estimate of the PAUC and the APUC (in base-year dollars).
- The cost and schedule variances (in dollars) of the major contracts since the contract was entered.
- Any changes from program schedule milestones or program performance reflected in the currently approved APB that are known, expected or anticipated by the PM.

The PM is required to immediately submit a UCR to the CAE whenever the PM has reasonable cause to believe that either:

- (1) The current estimate of either the PAUC or APUC has increased by 15% or more over the PAUC or APUC of the currently approved APB, respectively (this is a Congressionally reportable unit cost breach), or
- (2) The cost of a major contract has increased at least 15% or more over the contract cost. This is an internal DoD reportable breach only.

If the CAE determines that condition (1) above has occurred, the CAE is required to inform USD (AT&L) and the DoD Component Head. **The CAE must also notify Congress of the breach in writing within 45 days** after the end of the quarter in the case of a quarterly report or 45 days after the date of the report in the case of the reasonable cause report. In either case, the notification will also state the date on which the CAE made the breach determination. The CAE must then submit an exception SAR for either the fiscal year quarter ending on or after the determination date, or for the fiscal year quarter that immediately precedes the fiscal year quarter ending on or after the determination date. This exception SAR will contain additional, breach-related information.

If the current estimate of the PAUC or APUC increases 25% or more over the currently approved APB, **USD (AT&L) is required to submit a written certification to Congress** within 30 days of submitting the exception SAR stating:

- the program is essential to national security;
- there are no alternative programs which will provide equal or greater capability at less cost;
- the new estimates of PAUC and APUC are reasonable; and

- the management structure of the acquisition program is adequate to manage and control the PAUC and the APUC. If an increase in the PAUC or APUC of 25% or more results from the termination or cancellation of an entire program, program certification by the USD (AT&L) is not required.

Should the CAE determine that one of the above breaches has occurred and the required “explanation documentation” (i.e., the exception SAR or the USD (AT&L) certification) has not been submitted to Congress, then funds appropriated for RDT&E, procurement, or military construction may not be obligated for a major contract under the program.

The CARS contains the APB objectives and thresholds for the program. If one or more of these thresholds is breached, the CARS will highlight it in the DAES / UCR or SAR area that pertains to the breach. DoD 5000.2-R requires PMs to notify the Acquisition chain and/or Congress via an 'out-of-cycle' DAES, exception SAR, or immediate UCR.

MAJOR AUTOMATED INFORMATION SYSTEM (MAIS) QUARTERLY REPORT

The latest versions of DoD Instruction 5000.2 and Interim DoD 5000.2-R do not address the MAIS Quarterly Report formerly required for ACAT IA systems, since MAIS programs are now required to submit the DAES if so designated by ASD(C3I). Appendix V of the 1996 version of DoD 5000.2-R contains the mandatory procedures and format for the MAIS Quarterly Report for grandfathered programs.

SUMMARY

The **SAR, UCR, and DAES** are not decision documents; they are control tools for approval authorities. They reflect the overall status of the acquisition program. They inform approval authorities such as the PEO, CAE, and/or the MDA (Congress for SAR and UCR) of the program's progress and potential and/or real problems meeting performance, schedule, and cost targets or thresholds and objectives. These reports reflect the established plan and goals and form a feedback loop by comparing actual and planned accomplishments. The reports provide similar information in distinct formats. The CARS will electronically format the APB and pass the information to the SAR, DAES and UCR. These reports are then passed to the appropriate decision authority.